



Board Meeting Summary Paper

Subject: Interim Guidance for Auditors of Authorised Deposit-taking Institutions (ADIs) reporting pursuant to the Australian Prudential Regulation Authority's (APRA's) prudential reporting requirements

Date: 11 February 2008

AUASB AGENDA ITEM NO. 14
Meeting Date: 25-26 February
2008

Action Required

For Information Purposes Only

Agenda Item Objectives

To approve a Project Plan to develop and issue interim guidance to assist auditors of client Authorised Deposit-taking Institutions (ADIs)¹ reporting pursuant to the prudential reporting requirements specified by APRA in its Prudential Standard APS 310 *Audit & Related Arrangements for Prudential Reporting*, to apply to 31 March 2008 and 30 June 2008 reporting periods.

Background

AGS 1008 *Auditing Implications of Prudential Reporting Requirements for Authorised Deposit-taking Institutions* (ADIs) (comprehensively revised September 2001) provides guidance to auditors for reporting engagements undertaken for client ADIs in conformity with APRA Prudential Standard APS 310 (issued by APRA in September 2000). AGS 1008 includes example report formats that meet the reporting requirements of APS 310, as well as example engagement letters appropriate to undertaking engagements under APS 310.

APRA has issued several revised and additional Prudential Standards since 2002, including those addressing *Business Continuity Management* (APS 232), *Outsourcing* (APS 231), *Fit and Proper* (APS 520) and *Governance* (APS 510).

During November 2007, APRA released a suite of new and revised reporting requirements for ADIs that will give effect to the implementation of the new Basel II capital adequacy regime in Australia on 1 January 2008. The detailed requirements of ADIs will vary significantly, depending on whether they adopt the standardised or advanced approaches under the Basel II Framework² to calculate their capital requirements. To date, only a small number of ADIs have applied to APRA for accreditation to use the

¹ In Australia, banking institutions comprise banks, building societies and credit unions – collectively referred to as ADIs.

² The Basel II Framework is the commonly used description for a document titled “International Convergence of Capital Measurement and Capital Standards, a Revised Framework”

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advanced models. The majority of Basel II forms came into effect from 1 January 2008. The first submission of quarterly data to APRA, prepared under the new reporting requirements, will be for the 31 March 2008 quarter.

In late December 2007, APRA circulated a draft policy paper, entitled '*Roadmap of Proposed Amendments to APS 310*', to relevant stakeholders for review and comment. This 'consultation paper' set out proposed changes APRA intends to make to the prudential reporting requirements for ADI auditors as specified in APRA Prudential Standard APS 310 (in relation to the scope and level of assurance required from these engagements). APRA requested practitioners to provide informal feedback by the end of January 2008.

It is anticipated that a final 'Roadmap' policy document will be issued by APRA early in March. A comprehensive revision of APS 310 will follow. The final revised APS 310 is not expected to be issued formally before July 2008.

APRA's existing Prudential Standard APS 310 and the AUASB's AGS 1008 will therefore continue to apply to ADIs with 31 March 2008 and 30 June 2008 reporting periods.

APRA has requested the AUASB to develop interim guidance to assist ADI auditors reporting on ADI clients with 31 March 2008 and 30 June 2008 reporting periods. This interim guidance will consist primarily of example reports.

A comprehensive revision of AGS 1008 will follow once APRA has issued its revised Prudential Standard APS 310 in July 2008.

Matters to Consider

Refer to attached Project Plan.

Staff Recommendations

Approval of the attached Project Plan.

Material Presented

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Agenda Item 14.1 Project Plan